

1 VIRGINIA:

2 IN THE COUNTY OF DICKENSON

3 VIRGINIA DEPARTMENT OF MINES, MINERALS AND ENERGY

4 VIRGINIA GAS AND OIL BOARD

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9 OCTOBER 19, 1999

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11 APPEARANCES:

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14 BOARD MEMBERS:

15 MASON BRENT

16 MAX LEWIS

17 BENNY WAMPLER, CHAIRMAN

18 SANDRA RIGGS, ASSISTANT ATTORNEY GENERAL

19 CLYDE KING

20 DENNIS GARBIS

21 BOB WILSON, ACTING DIRECTOR OF THE DMME

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BENNY WAMPLER: Good morning. My name is Benny Wampler. I'm Deputy Director for the Department of Mines, Minerals and Energy, and Chairman of the Gas and Oil Board. Can you folks hear us?

(Audience indicates yes.)

BENNY WAMPLER: Okay. Feel free to move up if you have difficulty hearing. I'll ask the Board members to introduce themselves, starting with Mr. Brent.

MASON BRENT: My name is Mason Brent. I'm from Richmond, and I represent the Gas and Oil Industry.

MAX LEWIS: My name is Max Lewis and I'm from Buchanan County. I'm a public member.

SANDRA RIGGS: I'm Sandra Riggs with the Office of the Attorney General and I'm here to advise the Board.

CLYDE KING: My name is Clyde King. I'm from Abingdon. I'm a public member.

DENNIS GARBIS: My name is Dennis Garbis. I'm from Fairfax County. I'm a public member.

BOB WILSON: Bob Wilson. I'm acting Director of the Division of Gas and Oil and Principal Executive to the staff.

BENNY WAMPLER: Thank you very much. The first item on today's agenda, DMME staff, Jackie Davis is here to

1 present information to the Board on the bids received in  
2 response to request for a proposal to become the escrow agent  
3 for the Gas and Oil Board. Jackie, I'll just ask you to  
4 brief the Board on what the process has been and where we are  
5 today, if you would, please.

6 JACKIE DAVIS: Good morning.

7 (Everyone indicates good morning.)

8 JACKIE DAVIS: The escrow RFP was developed in  
9 conjunction with the users, the Gas and Oil...Division of Gas  
10 and Oil, with technical advice from the Attorney General's  
11 office. The structure of the RFP was to insure that the  
12 services that the Board...that the Division of Gas and Oil  
13 required to administer to the escrow account was properly  
14 provided for. The RFP is published in the Virginia Business  
15 Opportunities, which is a publication that is electronic, and  
16 as well as, publications are mailed to prospective customers  
17 and was direct mailed to six different clients, banks in the  
18 region as well as the Escrow Document Services for Lawyers in  
19 Denver, Colorado which had called and made a request. Two  
20 responses were received on the RFP. One, from First Virginia  
21 Bank and one from First Union Bank.

22 The responses were evaluated by a team consisting  
23 of myself, Mr. Tom Fulmer, the former DGO Division Director,  
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1 the Physical Officer for the Department, Mr. Frank Hampton,  
2 and Mr. Bob Gregory, who is the internal auditor for the  
3 Department. With that team doing the initial review, scoring  
4 was conducted on the proposals and then the two prospective  
5 respondees were brought in for an interview.

6           In the interview process, several questions were  
7 asked on how the service would develop, their background,  
8 their experience and the four original members of the review  
9 board, plus Sandra Riggs and Diane Davis from the Division of  
10 Gas and Oil participated in the interview process. After the  
11 interview process they were...the RFPs were again scored.  
12 The major differences being in the initial scoring was the  
13 cost issue. First Virginia, or First Union's, scores were  
14 higher in every category except cost across the board; and  
15 then in the initial subsequent requests that we have for  
16 services from the Board at the last meeting, we went back to  
17 the two prospective respondees and asked that they clarify  
18 their costs, which they have done, and I have included in the  
19 package to the Board members what the cost issues were for  
20 providing the service and the conversion costs.

21           The First Virginia response included a caveat for  
22 one year. At the end of the first year, they had requested  
23 to renegotiate.

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1           The First Union response was locked in for the five  
2 year contract. The contract was proposed for three years and  
3 two one year extensions for a total of five years.

4           Based on the follow up information that we  
5 received, the recommendation from the review group, of which  
6 I am the Chairman, was that First Union was the respondent  
7 that we would recommend. The cost was well defined  
8 throughout the period and the conversion cost was lower.  
9 First Virginia's were actually...the conversion costs came in  
10 somewhat higher than we had anticipated.

11           The RFP was prepared according to the Virginia  
12 guidelines, which is a purchasing guideline, and we followed  
13 all the rules and regulations provided by the Commonwealth.

14           BENNY WAMPLER: Any questions from members of the  
15 Board?

16           DENNIS GARBIS: Mr. Chairman, I have a few  
17 questions.

18           BENNY WAMPLER: Mr. Garbis.

19           DENNIS GARBIS: It appears that if you were going to  
20 look at this from a five year standpoint and, I guess, I'm  
21 understanding the fact that the amounts will decline over a  
22 period of time?

23           BENNY WAMPLER: It's anticipated the amount in  
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1 escrow would decline over time.

2 DENNIS GARBIS: Well, at any rate---.

3 BENNY WAMPLER: Based on current trends.

4 DENNIS GARBIS: ---there's several different ways  
5 to approach this and I...and I have to admit I'm biased to  
6 Virginia...I'd like to leave the money here in a Virginia  
7 account, and I'll state that up front, but if you look at the  
8 numbers, I mean, if First Union, if they're \$60,000 a year  
9 for five years that's \$300,000; First Virginia \$48,000,  
10 that's going to be \$240,000 and then, of course, you have the  
11 conversion costs. But in looking at the conversion costs, at  
12 least what First Union says, it says that it is \$7,500, but  
13 if addition time is required, then that could be an  
14 additional \$70 per hour, if I'm looking at this correctly, on  
15 the third page of the First Union hand out.

16 JACKIE DAVIS: Actually, the letter that we received  
17 on September the 24th from First Union, which is included in  
18 your package in the first paragraph, states that even though  
19 without seeing all the data, they're confident that the  
20 conversion will be performed for \$7,500 and that there would  
21 be no other hourly charges associated with the process. In  
22 the discussion that we had in the interviews, they felt very  
23 comfortable. It's in the copy of the letter that's

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1 associated with the document that you received. The...First  
2 Union was very comfortable given their past history and the  
3 fact that they are used to doing the three sub account, or  
4 three account levels, that they felt that they could convert  
5 costs...could convert the data without any additional cost  
6 and that is included.

7 CLYDE KING: Is there any guarantee that that  
8 confidence will be true?

9 JACKIE DAVIS: I don't think we can guarantee any  
10 time, you know, without them seeing the data. They seem to  
11 have a high confidence level though, in their discussions  
12 that they had with us.

13 DENNIS GARBIS: The other thing I'm concerned about  
14 is the fact that when we first started this out, and I know  
15 there has been a lot of refinement and growing problems in  
16 the progress of trying to get this to where we really need  
17 it. As a wise person says, we had a problem and we didn't  
18 even know we had a problem. So, I'm concerned and I don't  
19 want to unfairly...because really, I don't think anybody knew  
20 what the problem was and I understand the track record. I  
21 just don't want to have it unfairly tainted that, you know,  
22 FVB, couldn't perform when, in fact, we didn't know what the  
23 expectations were at the time. So, I just want to make sure  
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1 we're comparing apples and apples. It is easy for the  
2 guy...the new guy to come in there and say well, I can do  
3 this, that and the other when, in fact, you know...the  
4 nineties talk is cheap, the supply is much greater than the  
5 demand. So, I do have some concerns. I don't know  
6 about...maybe some of the other members of the Board  
7 could---.

8 BENNY WAMPLER: Any other questions from members of  
9 the Board?

10 CLYDE KING: Mr. Chairman, I have---.

11 BENNY WAMPLER: Mr. King.

12 CLYDE KING: Is First Union's Employee Shareholders  
13 Services, this is...these people are out of Philadelphia?

14 JACKIE DAVIS: The chief administrator of the asset  
15 account is located in Philadelphia and they have a corporate  
16 Vice President in the Roanoke office that actually had met  
17 with us and presented the information, who would be our  
18 primary contact.

19 CLYDE KING: So, it will be handled out of Roanoke,  
20 or out of Philadelphia?

21 JACKIE DAVIS: The asset management itself is in  
22 Philadelphia. Our first line of contact would be through  
23 Roanoke and to Philadelphia as well. The assets are handled

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1 out of Philadelphia.

2 CLYDE KING: I have another question.

3 BENNY WAMPLER: Mr. King.

4 CLYDE KING: What is the time line...are we under a  
5 must situation for the time to be done fairly quickly.

6 JACKIE DAVIS: The current holder, which is First  
7 Virginia, contract has been extended until the last of  
8 December.

9 BENNY WAMPLER: We've extended it twice earlier, I  
10 think.

11 JACKIE DAVIS: That's correct. We have the ability  
12 through the State Procurement Laws when we're in these kind  
13 of negotiations to have some flexibility and extend the time  
14 line and it has been extended until the 31st of December  
15 until we can make a decision.

16 CLYDE KING: So, the actual take over would be  
17 January 1st?

18 JACKIE DAVIS: That's correct.

19 BENNY WAMPLER: Are there any other questions?

20 SANDRA RIGGS: I would like to point out that we  
21 need some overlap time if we're going to...if there is a  
22 change, that you can't just drop it and start a new account  
23 the next day. You've got to have overlap to afford time for  
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1 a transition and that's one of the reasons the contract was  
2 extended is, to allow a two month or so transition time to  
3 get the account information forwarded if there were a change,  
4 because it's going to take some doing, I would say, to that.

5 JACKIE DAVIS: That's correct.

6 SANDRA RIGGS: So, you need to sort of keep that in  
7 mind, too.

8 DENNIS GARBIS: On page three (3) it gives...under  
9 the First Union proposal, it gives the number of costs. Is  
10 there a comparable cost such as that for First Virginia? IS  
11 there a page like that?

12 JACKIE DAVIS: In...yes, in discussion with First  
13 Union through the review process, we did have some questions  
14 about the conver...the inclusive account that they had  
15 required and the weekly file transmission, investment of  
16 funds. They had some questions and they clarified that by  
17 giving the minimum account fee. And then the discussion with  
18 Don Balanoff (spelling) who's the principal who had signed  
19 the proposal that those fees would not apply. Only this  
20 \$60,000 per year minimum fee would apply and they had  
21 actually waived out some of those costs.

22 BENNY WAMPLER: I believe the...I'm sorry. I  
23 believe the question, though, was is there a comparable sheet

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1 for First Virginia?

2 DENNIS GARBIS: Correct.

3 JACKIE DAVIS: No. The First Virginia does not add  
4 any inclusive fees on their account other than the \$48,000  
5 that they had targeted for us.

6 DENNIS GARBIS: So, in other words, where it has  
7 here weekly file transmission, \$25 per, on all other  
8 successive ones, there would be no comparable charge from  
9 First Virginia?

10 JACKIE DAVIS: That's correct.

11 DENNIS GARBIS: The other thing that somewhat  
12 concerns me is again was...what I alluded to in the beginning  
13 was, if the amount is declining, would it not make sense to  
14 be able to negotiate at the end of each calendar year the  
15 amount...I mean, suppose it goes down below, you know, I'm  
16 not sure how far it can go down, but suppose it went down  
17 below where there was a reasonable...I mean, it may be  
18 costly. We could be in a deficit situation because we're  
19 locked in at \$60,000 a year and all of a sudden, the income  
20 isn't generated sufficient to cover because there aren't that  
21 amount of money in the escrow account to begin with. I mean,  
22 could that be a problem? I don't know. Maybe...Mr.  
23 Chairman, maybe you have a better feel for the direction this

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1 is heading? I...I just don't know.

2           BENNY WAMPLER: You know, the account...the account  
3 constantly has money going in to it. We've had agreements  
4 where we have approved disbursements. More and more people  
5 were finding out that provisions do allow them to come  
6 together to an agreement, come to the Board and seek  
7 disbursement of the funds, which one would think you would  
8 have more of that activity occurring in the future, which  
9 could lead to a declining balance. It's a...but, I guess,  
10 what...just specific question goes to the contract itself  
11 and, Jackie, you might want to address that as you do have a  
12 declining balance.

13           JACKIE DAVIS: They also have the ability to  
14 increase the fees instead of just decrease the fees with a  
15 declining balance. One of the reasons they...according to my  
16 discussion with Mr. Ditz with the negotiation, was that they  
17 wanted to be able to renegotiate with the possibility of the  
18 fees going up as well.

19           DENNIS GARBIS: Sure.

20           JACKIE DAVIS: And I think that's...that was what  
21 was indicated.

22           CLYDE KING: Does...excuse me. Does it mean a wire  
23 transfer of each is a \$35 charge?

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1           JACKIE DAVIS: If the...in the discussion that we  
2 had in the interviews, if a request comes in specifically for  
3 a wire transfer, there is a fee associated with that.

4           SANDRA RIGGS: But that would be deducted off the  
5 monies going out, not off of the general fund. In other  
6 words, if the attorney...the way we've disbursed in the past,  
7 once we enter a Board order authorizing disbursement, the  
8 attorney representing the applicants has a sent a letter in  
9 with wire transfer instructions and if they choose that  
10 method of disbursement, then they are thereby authorizing the  
11 cost of that disbursement to be deducted because they want  
12 immediate funds on that instead of a check.

13           CLYDE KING: We've seen some pretty small  
14 disbursements in the past. I wonder, is there a minimum...is  
15 there...is this fee applicable, even if the disbursement was  
16 very small.

17           SANDRA RIGGS: The disbursement would be check  
18 unless the person getting the money specifically chose to  
19 have the funds wire transferred to them. They would have to  
20 request a wire transfer and provide wire transfer  
21 instructions and authorize the payment of the fee.

22           JACKIE DAVIS: That's correct.

23           SANDRA RIGGS: And that's...that's up to the person  
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1 drawing their money out whether they want it by wire.

2           CLYDE KING: So, there's no fee if you don't wire  
3 transfer?

4           JACKIE DAVIS: That's correct.

5           BENNY WAMPLER: Other questions?

6           (No audible response.)

7           BENNY WAMPLER: Do you have anything further you  
8 think you need to clarify?

9           JACKIE DAVIS: I don't think so.

10          DENNIS GARBIS: Excuse me. One more question.

11          BENNY WAMPLER: Yes, sir.

12          DENNIS GARBIS: Has there been any scrutiny of the  
13 track record of First Union versus First Virginia as far as  
14 their ability to manage the funds and get a high rate of  
15 return?

16          JACKIE DAVIS: The initial information that they  
17 provided to us was Investment and Security Evergreen Funds,  
18 which they indicated was, you know, 4 to 5% range in their  
19 discussion with us.

20          DENNIS GARBIS: I mean, obviously that could make a  
21 difference because...you know, they...even if somebody is  
22 charging more, if they have an ability to get a high rate of  
23 return, that may more than compensate for the fact that they  
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1 may, or may not, be as efficient as we'd like. I don't...I  
2 mean, that...that might be a pretty strong consideration in  
3 how we decide.

4 SANDRA RIGGS: There are statutory limitations on  
5 the types of funds they can investment in.

6 DENNIS GARBIS: Yeah.

7 SANDRA RIGGS: And they're pretty...pretty limited  
8 in what they can put the money in because they're treated as  
9 if they're government funds and under the statute, that's the  
10 most conservative...conservative investment policy you can  
11 use.

12 DENNIS GARBIS: Okay. I guess that wouldn't apply  
13 then, would it?

14 (No audible response.)

15 BENNY WAMPLER: Any other questions?

16 (No audible response.)

17 BENNY WAMPLER: Is there anyone here today that  
18 wishes to address the Board in this matter?

19 MARK SWARTZ: Mark Swartz. If I could just take one  
20 minute of your time. We have a fair amount of experience  
21 with the current escrow agent. My clients...I know my  
22 clients are in favor of a change and a basic...and I am,  
23 personally as well. The basic reasons are our experience has  
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1 been that we do not get timely, prompt responses, and by we,  
2 I'm including the Board, or at least Mr. Wampler and Sandy  
3 and me. Because...so, the turn around time in terms of  
4 asking a question and getting some kind of a response...I  
5 mean, at one point, I believe Mr. Wampler was contacting the  
6 President of the bank to try and get somebody's attention and  
7 I'm not sure that it really improved dramatically after that  
8 either. But, I mean, that's...that's a problem. So, the  
9 turn around time on responses have been a problem.

10           Secondly, the quality of the information that we  
11 get when we do get it has been a problem. The balances are  
12 not anything approximately current in time. And, so you're  
13 always dealing with some really distant number. You know,  
14 you would think you could get a monthly or even, you know,  
15 what's the balance of this account today. But my experience  
16 has been that we have been completely unable to do that.

17           And then third thing, which also goes to the  
18 accounting, is when money comes out, the interest doesn't  
19 come with it. You know, it takes multiple requests to try to  
20 get it straightened out. I mean, I think some of the  
21 interest is almost a year now and still hasn't been paid.

22           I'm not...I'm not sure that you always get what you  
23 pay for. Okay, I mean, there are instances when you clearly

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1 do not, but my suspicion here is that the difference in fees  
2 may be attributable to the other people actually intending to  
3 put the time and effort into the project to give you the kind  
4 of output that you deserve and want. So, my concern is the  
5 quality of the service we have endured in the past and forget  
6 about what instructions we gave them in the beginning.  
7 That's not what I'm talking about. I'm just talking about  
8 legitimate requests to provide us with information that they  
9 should have based on their original charge. That's what I'm  
10 talking about. I feel like...they've demonstrated that  
11 there's been a problem. So, I understand the personnel is  
12 essentially the same that we're dealing with. I think that  
13 you might want to really seriously consider making a change  
14 and I speak for Buchanan Production and Pocahontas Gas and  
15 myself, personally, because I've had a fair amount of contact  
16 with them as well.

17 BENNY WAMPLER: Thank you very much. Any others  
18 that wish to address the Board?

19 (No audible response.)

20 BENNY WAMPLER: Any further discussion, Board  
21 Members?

22 (No audible response.)

23 BENNY WAMPLER: Do you have a staff recommendation  
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1 on First Union based on of the interviews and the pricing and  
2 the proposal that has been made? Is there a motion?

3 MASON BRENT: Mr. Chairman, I move that we change  
4 our agent to First Union. I'm...I'm sympathetic with wanting  
5 to deal with the local hometown or state bank, but this is  
6 not our money we're dealing and our responsibility goes far  
7 beyond our own checking account here. It has been  
8 demonstrated to me that First Union would be in a better  
9 position to handle this account than has First Virginia. So,  
10 I...I move that we go with their recommendation and switch  
11 the account to First Union.

12 BENNY WAMPLER: I have a motion for First Union. Is  
13 there a second?

14 DENNIS GARBIS: Mr. Chairman, could I...before  
15 we...can I just ask a question about that?

16 BENNY WAMPLER: Yes. Yes, sir.

17 DENNIS GARBIS: My gut feeling is, I agree. Can  
18 we...what is the time range on this? I mean, can we somehow  
19 limit it to make sure that if this guy doesn't perform, that  
20 we can...I mean, I don't want to lock ourselves into five (5)  
21 years or---?

22 JACKIE DAVIS: No. We have the ability through the  
23 normal evaluation process. We have a contract administrator

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1 that is appointed in writing with certain duties associated  
2 with this contract. They continually evaluate performance.  
3 If performance is a problem, we work through the Attorney  
4 General's Office and provide a cure letter. If they don't  
5 provide that cure within thirty (30) days, then we do have  
6 the ability to default.

7 CLYDE KING: At a cost...at not cost?

8 JACKIE DAVIS: It's no cost to the Commonwealth.  
9 It's a performance---.

10 DENNIS GARBIS: But, I mean, basically the contract  
11 is structured for how many years with the---?

12 JACKIE DAVIS: It has three (3) years---.

13 BENNY WAMPLER: Three (3) years...two (2)---.

14 JACKIE DAVIS: ---with two (2) one year extensions.

15 DENNIS GARBIS: I see.

16 CLYDE KING: Mr. Chairman, I reluctantly seconded  
17 the motion. I hope we're right.

18 BENNY WAMPLER: Any further discussion?

19 (No audible response.)

20 BENNY WAMPLER: Motion and second. Any further  
21 discussion?

22 (No audible response.)

23 BENNY WAMPLER: All if favor, signify by saying yes.

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1 (All members signify yes.)

2 BENNY WAMPLER: Opposed, say no.

3 (No audible response.)

4 BENNY WAMPLER: We have a unanimous approval. Thank  
5 you. Thank you, Mr. Davis.

6 The next item on the agenda, the Board will  
7 consider a petition from Pocahontas Gas Partnership for  
8 pooling of a coalbed methane unit under the Oakwood Coalbed  
9 Methane Gas Field I Order identified as L-42, docket number  
10 VGOB-99-10/19-0751. We'd ask the parties that wish to  
11 address the Board in this matter to come forward at this  
12 time.

13 MARK SWARTZ: Mark Swartz and Les Arrington. Mr.  
14 Chairman, we have, I think, nine (9) items on the docket  
15 today. They are all Oakwood I, 80 acre units. Pocahontas  
16 Gas Partnership is the applicant in all instances. There is  
17 one well in each unit. Each of the wells is in the...is in  
18 the drilling window. So, we've got a pretty straight forward  
19 docket today. The...what I would propose...I would like to  
20 consolidate as many of these cases that I could since they're  
21 essentially very, very similar. I think, though, that we  
22 have some folks here on two of the applications.

23 BENNY WAMPLER: Okay.

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1           MARK SWARTZ: And I think the people who are here  
2 are mostly likely interested in S-52 and S-53, and I would  
3 suggest or propose that maybe we should call...if we could  
4 call those two first since we have respondents here and  
5 address those together so that we can address their concerns;  
6 and then I have one that I would like to continue which is  
7 R-52 and then combine the balance of them once we're done  
8 with S-52 and S-53. If that...that would be my proposal, if  
9 that makes sense to you all, to efficiently address the  
10 concerns of the people that are here today and then  
11 efficiently use your time.

12           CLYDE KING: Defer 52?

13           BENNY WAMPLER: All right. You're going to...your  
14 request is to...strike the docket I just called for the time  
15 being. The...you've requested to continue docket number  
16 VGOB-99-10/19-0756, R-52?

17           MARK SWARTZ: Correct. Correct.

18           BENNY WAMPLER: Any opposition to that?

19           (No audible response.)

20           BENNY WAMPLER: Hearing none, that's continued until  
21 next month. And then your other proposal is to call S-52 and  
22 S-53?

23           MARK SWARTZ: Yes. First.

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1                   BENNY WAMPLER: All right. First. Hearing no  
2 objection to that, the Gas and Oil Board will consider a  
3 petition from Pocahontas Gas Partnership for pooling of a  
4 coalbed methane unit identified as S-52 and S-53. These are  
5 dockets number VGOB-99-10/19-0757 and docket number VGOB-99-  
6 10/19-0758. We'd ask the parties that wish to address the  
7 Board in this matter to come forward at this time.

8                   MARK SWARTZ: Just so that everyone is clear on  
9 this, let me read the respondents. There aren't that many in  
10 the two units. So, the folks know who...who is at stake  
11 here.

12                   BENNY WAMPLER: Okay.

13                   MARK SWARTZ: In S-52, the people that we noticed as  
14 respondents are Wanda Reedy, Fred McGlothlin, Herbert  
15 Anderson and Jewell Ridge Coal. In S-53, we noticed as  
16 respondents Fred McGlothlin, Wanda Reedy, Greta Woosley,  
17 Johnny Woosley, Ginger Mustard, Herbert Anderson, CB Mining,  
18 Jewell Ridge Coal Corporation and any and all unknown owners  
19 and/or claimants in Tract 1M.

20                   BENNY WAMPLER: Now, if there are parties here in  
21 the audience that want to come forward and address the Board  
22 in this matter, you feel free to move up here to the table,  
23 please, at this time.

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1 (No one comes forward.)

2 BENNY WAMPLER: The record will show there are  
3 not...are none. You may proceed.

4 (Les Arrington hands out exhibits.)

5 MARK SWARTZ: Okay. You need to swear Mr.  
6 Arrington.

7 (Les Arrington is duly sworn.)

8

9 LESLIE K. ARRINGTON

10 having been duly sworn, was examined and testified as  
11 follows:

12 DIRECT EXAMINATION

13 QUESTIONS BY MR. SWARTZ:

14 Q. Do you want to state your name for the  
15 record?

16 A. Leslie K. Arrington.

17 Q. Who do you work for?

18 A. Consol.

19 Q. And did you participate in drafting the  
20 notices of hearing, application and related exhibits for  
21 Units S-52 and S-53?

22 A. Yes, I did.

23 Q. And, in fact, you signed the notices and the

24

--

1 applications with regard to both of these units?

2 A. Yes, I did.

3 Q. Who is the applicant?

4 A. Pocahontas Gas.

5 Q. And is Pocahontas Gas Partnership a Virginia

6 General Partnership?

7 A. Yes, it is.

8 Q. Are the two partners Appalachian Operators,

9 Inc. and Appalachian Methane, Inc.?

10 A. No.

11 Q. I'm sorry. Who are the two partners in

12 Pocahontas Gas Partnership?

13 A. Conoco and Consolidation Coal Company.

14 Q. Okay. Who is that you are requesting be

15 appointed by the Board as the designated operator?

16 A. Pocahontas Gas.

17 Q. Partnership?

18 A. Yes.

19 Q. Okay. Is Pocahontas Gas Partnership

20 authorized to do business in Virginia?

21 A. Yes, they are.

22 Q. Has...has that partnership registered with

23 the Department of Mines, Minerals and Energy?

24



1           A.       Yes, it has.

2           Q.       And does that partnership have a blanket  
3 bond on file as is required by law?

4           A.       Yes, it does.

5           Q.       Okay. Now, in...with regard to these two  
6 units, have you listed the respondents that you're seeking to  
7 pool in the notice and again in Exhibits B-3?

8           A.       Yes, I have.

9           Q.       Okay. And in Exhibit B-3, have you set  
10 forth the acreage in the units and in the...and the  
11 percentage of interest in each unit?

12          A.       Yes, I have.

13          Q.       Okay. And the packet that you have passed  
14 out to the Board today has a revised Exhibit B-3, does it  
15 not?

16          A.       It does.

17          Q.       And that's item number four in both of the  
18 exhibit packets that you passed out this morning?

19          A.       Yes, it does.

20          Q.       And what was the change?

21          A.       The change in that was we...we had a Herbert  
22 Anderson listed originally and that tract has since...our  
23 title work further updated that to show it as Fred  
24

1 McGlothlin, who was also noticed.

2 Q. Okay. So, it's a change of a tract to  
3 someone that you had already noticed?

4 A. That's correct.

5 Q. Okay. Is that the only difference in the B-  
6 3s---?

7 A. Yes.

8 Q. ---that we submitted today compared to what  
9 was filed?

10 A. Yes, it is.

11 BENNY WAMPLER: Just one second. That was changed  
12 to Fred and Dorothy McGlothlin?

13 A. Yes.

14 BENNY WAMPLER: Okay.

15 Q. And the revised tract ID numbers, would that  
16 reflect the same change?

17 A. It does.

18 Q. Okay. And revised Exhibit E, would that  
19 also be limited to the one change that you've just described?

20 A. Yes, it does. Yes.

21 Q. Okay. Did you publish with regard...publish  
22 a notice with regard to both units S-52 and S-53?

23 A. Yes, we did. They were published in the  
24

1 Bluefield Daily Telegraph on August the 28th, 1999.

2 Q. And did you mail...did you mail notice...do  
3 you want to check the publication?

4 A. Yeah, I believe that was September, I  
5 believe. I'm sorry.

6 Q. So, when was it published?

7 A. September the 30th.

8 Q. Of 1999?

9 A. Yes.

10 Q. Okay. And what did you publish?

11 A. The notice of hearing.

12 Q. And in what paper?

13 A. The Bluefield Daily Telegraph.

14 Q. And then was...were...did you mail the  
15 notice of hearing and application to the respondents?

16 A. We did. We mailed by certified mail on  
17 September the 30th, 1999.

18 Q. And attached to the exhibits that you have  
19 provided the Board, there are copies of the...there is a  
20 certification of notice which lists the dates on which the  
21 items were mailed, and then the status as received, and gives  
22 the dates, and then shows the green...copies of the green  
23 card that you received back, correct?

24

--

1           A.       Yes. But I...the publication and notice  
2   dates on the sheet that we passed out is incorrect.

3           Q.       On the summary sheet?

4           A.       On the summary sheet.

5           Q.       Okay.

6           A.       The date we mailed those out was September  
7   the 17th. I'm sorry.

8           Q.       Okay. So, the return receipts Exhibit Two  
9   that you passed out today, and the certification lists  
10   September 17th as all the mailings, and that's the correct  
11   date?

12          A.       It is.

13          Q.       Okay. And with regard to the publication,  
14   there is in the exhibits you passed out today are certificate  
15   of publication from the newspaper and that reflects the  
16   correct date as well?

17          A.       It does.

18          Q.       Okay. And that's true for both S-52 and S-  
19   53?

20          A.       Correct.

21          Q.       Okay. With regard to standing, if you would  
22   turn and let's start with S-52. Let's look at Exhibit A,  
23   page two. What amount of the coal interests have you leased  
24

1 or do you own in Unit S-52?

2 A. 80...coal interest 100%.

3 Q. Okay. With regard to the oil and gas claims  
4 to coalbed methane in S-52, what percentage of those  
5 interests have you leased or do you own?

6 A. 85.65%.

7 Q. What is...what's the interest, the nature of  
8 the interest that you're seeking to pool in S-52 and the  
9 percentage of that interest?

10 A. It's oil and gas, coalbed methane interest  
11 of the oil and gas owners and it's 14.35%.

12 Q. Okay. With regard to S-53, lets look at  
13 Exhibit A, page two. How much of the coal interest or claims  
14 to coalbed methane have you leased or do you own?

15 A. We've leased 100% of the coal.

16 Q. And what is the percentage of the oil and  
17 gas that you've leased?

18 A. 5.3875%.

19 Q. And what is the interest you're seeking to  
20 pool and the percentage of that interest?

21 A. 94.6125%.

22 Q. Of the oil and gas claims to coalbed  
23 methane?

24

1           A.       That's correct.

2           Q.       Okay. With regard to lease terms that you  
3 have offered the folks who, in both of these units that  
4 you've been able to lease from, generally speaking, what have  
5 those terms been?

6           A.       A dollar per acre per year for a coalbed  
7 methane lease, five (5) year term, with a one-eighth royalty.

8           Q.       And the dollar an acre rental, delay rental,  
9 would cease on commencement of production, correct?

10          A.       It does.

11          Q.       Are all of these...are both of these units  
12 80 acre Oakwood I units?

13          A.       Yes, they are.

14          Q.       Both are proposed to have one well in the  
15 unit?

16          A.       Yes.

17          Q.       And in both instances, the location of that  
18 well is projected to be within the drilling windows?

19          A.       Yes, it is.

20          Q.       And are you seeking to pool and develop all  
21 seems from the Tiller on down?

22          A.       Yes, we are.

23          Q.       Have you attached your estimate of costs  
24

1 with regard to both of these units?

2 A. Yes, I have.

3 Q. What's the estimated costs to drill and  
4 equip the well for S-52?

5 A. \$229,085.50.

6 Q. And what's the estimate with regard to S-53?

7 A. \$239,791.80.

8 Q. And is it your opinion that both of those  
9 estimates are reasonable estimates for the cost to drill,  
10 frac and equip these two wells?

11 A. Yes, it is.

12 Q. Now, in the revised Exhibit B-3, have you  
13 set forth the acreage of the unit with regard to each  
14 respondent?

15 A. Yes, we did.

16 Q. And that's under the column net areas in the  
17 unit?

18 A. That's correct.

19 Q. And then there's an interest in unit?

20 A. Correct.

21 Q. And would that percentage listed in the  
22 column interest in unit be the percentage that someone would  
23 use to calculate their participation interest?

24

1           A.       Yes, it would.

2           Q.       Or carried interest?

3           A.       Yes.

4           Q.       And it's going to be the percentage that you

5 all use to calculate royalty, correct?

6           A.       Yes, it is.

7           Q.       Is it your opinion that the development plan

8 shown with regard to S-52 and S-53 on the plat is a

9 reasonable plan to develop the coalbed methane under these

10 two units?

11          A.       Yes, it is.

12          Q.       And is it further your opinion that the

13 approval of this develop...these development plans for both

14 S-52 and S-53 will contribute to the production of

15 correlative by giving all owners in both of these units their

16 fair share of the royalties attributable to the production

17 from its units?

18          A.       Yes, it is.

19          Q.       That's all I have.

20          BENNY WAMPLER: Any questions from members of the

21 Board? Mr. Garbis?

22          DENNIS GARBIS: Mr. Chairman, I noticed that in S-53

23 that there was 94.61250% that is not leased. Is there

24



1 any...I mean, that's above the average. Is there a  
2 particular reason for that? Did I miss something?

3 LESLIE K. ARRINGTON: If you'll notice on Exhibit B-  
4 3, there's an interest on there shown as CB Mining/Jewell  
5 Ridge Coal Company. We have been continuously negotiating  
6 with them to purchase that interest of which I believe we're  
7 going to. We're going to get that interest.

8 DENNIS GARBIS: What percentage do they own?

9 LESLIE K. ARRINGTON: They have approximately 20% of  
10 it. That's actually the surface location of S-53.

11 Q. Have you offered leases or tried to obtain  
12 leases from the other oil and gas owners as well?

13 A. Yes, we have.

14 Q. Okay. And have been unsuccessful?

15 A. That's correct.

16 Q. So, essentially what we have here is a  
17 situation, you've got the coal interest in the CBM a 100%  
18 leased and only have a small portion of the oil and gas  
19 leased?

20 A. That's correct.

21 BENNY WAMPLER: Other questions from members of the  
22 Board? Did that answer your question?

23 DENNIS GARBIS: Yes, that's satisfactory.

24

--

1           MAX LEWIS: Have you all done everything you could  
2 to try to obtain these leases?  
3           LESLIE K. ARRINGTON: I'm sorry?  
4           MAX LEWIS: Have you done everything that you could  
5 to try to obtain these leases?  
6           LESLIE K. ARRINGTON: Lease...leases have been  
7 offered to each individual. We have been in contact with the  
8 individuals.  
9           BENNY WAMPLER: No permit has been issued to date on  
10 these two?  
11           MARK SWARTZ: Correct.  
12           LESLIE K. ARRINGTON: No. S-52 and 53---.  
13           BENNY WAMPLER: Right.  
14           LESLIE K. ARRINGTON: Was just issued...what was  
15 that? Thursday, I think. I believe.  
16           BENNY WAMPLER: Okay. So, the permit has been  
17 issued.  
18           LESLIE K. ARRINGTON: Yes, it has.  
19           BENNY WAMPLER: I didn't bring a copy of that  
20 information with me. Do you have anything further, Mr.  
21 Swartz?  
22           MARK SWARTZ: No.  
23           CLYDE KING: I move we approve, Mr. Chairman.  
24

1                   MASON BRENT: Second.

2                   BENNY WAMPLER: Motion to approve and second. Any  
3 further discussion?

4                   MAX LEWIS: I'd like to say one thing. As long as  
5 I've been on this Board, I've never seen a percentage like  
6 this unleashed.

7                   MARK SWARTZ: Well, bear in mind what this shows is  
8 we've leased over 50% of this unit. I mean, your...you know,  
9 we have to enter in the 200% of the acreage amount in a unit  
10 to lease it and we've leased a 100% of the coal and some of  
11 the oil and gas. So, I mean, we have leased half of what we  
12 would normally...if we had a voluntary unit, we've leased  
13 half of what we would need a lease for a voluntary unit. So,  
14 the statute also, I would observe, has a requirement on  
15 conventional oil and gas that you have 25% of the interest in  
16 the unit leased. On coalbed methane, there is no  
17 requirement. But we have arguably 50% of this unit...well,  
18 50% plus, leased depending on how (inaudible). And I  
19 understand where you're coming from, but, you know, I would  
20 observe that, you know, we have to lease both sides and we've  
21 leased one side.

22                   BENNY WAMPLER: Any further discussion?

23                   (No audible response.)

24

--

1           BENNY WAMPLER: All in favor, signify by saying yes.  
2           (All members signify yes but one.)  
3           BENNY WAMPLER: Opposed, say no.  
4           (Max Lewis signifies no.)  
5           BENNY WAMPLER: We have one opposed. Now, I believe  
6 your request was to consolidate two (2) through six (6) on  
7 our agenda then. Is that correct? I'm just talking about  
8 item numbers now.  
9           MARK SWARTZ: I would need to borrow your agenda.  
10          BENNY WAMPLER: You had...you had item number eleven  
11 (11) on there and I didn't...Q-50. I didn't know if you had  
12 one that included or not.  
13          LESLIE K. ARRINGTON: Yes.  
14          BENNY WAMPLER: You do?  
15          LESLIE K. ARRINGTON: We have Q-50.  
16          BENNY WAMPLER: I understand. I'm asking if you  
17 want to consolidate that as well.  
18          MARK SWARTZ: Yeah, include that. Yes. So,  
19 basically we will be talking about items two (2) through---.  
20          BENNY WAMPLER: Two (2) through six (6) and eleven  
21 (11).  
22          MARK SWARTZ: Correct. Correct.  
23          BENNY WAMPLER: Okay. The Board will now consider a  
24

1 petition from Pocahontas Gas Partnership for pooling of a  
2 coalbed methane unit under the Oakwood Coalbed Methane Gas  
3 Field I Order, identified as L-42, docket number VGOB-99-  
4 10/19-0751; L-43, docket number VGOB-99-10/19-0752; N-43,  
5 docket number VGOB-99-10/19-0753; N-44, docket number VGOB-  
6 99-10/19-0754; R-50, docket number VGOB-99-10/19-0755; and Q-  
7 50, docket number VGOB-99-10/19-0760. We'd ask the parties  
8 that wish to address the Board in this matter to come forward  
9 at this time, please, with these matters.

10 MARK SWARTZ: Mark Swartz and Les Arrington again.

11 BENNY WAMPLER: The record will show there are no  
12 others. You may proceed.

13 (Leslie K. Arrington hands out exhibits.)

14

15 LESLIE K. ARRINGTON

16 having been duly sworn, was examined and testified as  
17 follows:

18 DIRECT EXAMINATION

19 QUESTIONS BY MR. SWARTZ:

20 Q. Okay. Mr. Arrington, I'll remind you that  
21 you're still under oath.

22 A. Yes.

23 Q. Who are you employed by?

24

--

1           A.       Consol as a permit specialist.

2           Q.       Did you prepare or cause to be prepared the

3 notices, applications and exhibits with regard to these

4 pooling applications?

5           A.       Yes, I have.

6           Q.       And you, in fact, signed the notices and the

7 applications with regard to all of these units?

8           A.       Yes, I have.

9           Q.       Okay. Who is the applicant in each of these

10 units?

11          A.       Pocahontas Gas Partnership.

12          Q.       And who are the partners in Pocahontas Gas?

13          A.       Conoco, Inc. and Consolidation Coal Company.

14          Q.       Is Pocahontas Gas Partnership a Virginia

15 General Partnership?

16          A.       Yes, it is.

17          Q.       And is it authorized to do business in the

18 Commonwealth?

19          A.       Yes, it is.

20          Q.       Has it registered with the DMME?

21          A.       Yes, it has.

22          Q.       And does it have a blanket bond on file with

23 regard to reclamation and other obligations?

24

1           A.       Yes, it does.

2           Q.       Have you listed with regard to each of these  
3 applications that we're talking about now the respondents or  
4 the folks that you're seeking to pool in both the notice and  
5 Exhibit B-3 to the applications?

6           A.       Yes, we have.

7           Q.       Now, with regard to the exhibits you passed  
8 out today, in Exhibit L-42, there are no revised substantive  
9 exhibits, correct?

10          A.       That's correct.

11          Q.       With regard to L-43, though, there is a  
12 revised Exhibit B-3, E and the tract ID exhibit? With regard  
13 L-43, what has changed?

14          A.       Yes. You'll noticed on Exhibit B-3, there  
15 was a change to the Robert White tract. Originally, we did  
16 not have the heirs of that tract and we have now listed the  
17 two individuals on that interest.

18          Q.       So, between the time that the pooling  
19 application was filed and today's hearing you've identified  
20 the heirs?

21          A.       Yes, we have.

22          Q.       And have listed them?

23          A.       Yes, we have.

24

1 Q. Okay. Any other change?

2 A. No.

3 Q. And that change then would be reflected on

4 Exhibit E and the tract ID?

5 A. That's correct.

6 Q. Okay. Turning to Exhibit N-43, no

7 substantive changes in those exhibits?

8 A. No.

9 Q. With regard to Exhibits pertaining

10 application N-44, any substantive changes?

11 A. No...no.

12 Q. R-50, it looks like there were.

13 A. There was. The change that was made on that

14 one was to include...wait just a minute. I'll have to get an

15 exact name. A...I'm going to try to name it. It was Tract

16 1-A, it was a Church Trustees of a Non-Sectarian Unorganized

17 Holiness People to include that interest.

18 Q. Okay. So, that's the only addition?

19 A. Yes, it is.

20 Q. Okay. And how was that originally noticed?

21 A. You mean as in publication?

22 Q. Right.

23 A. I'll have to look and see how that...the

24



1 trustees of the Non-Sectarian Unorganized Holiness People.

2 Q. Okay. So, the publication did have that  
3 except the name wasn't quite right?

4 A. It wasn't. That's correct.

5 Q. Okay. With regard to the R-52---

6 A. We've continued...we've continued that.

7 Q. ---we've continued that. And Q-50, there  
8 are no substantive changes?

9 A. That's correct.

10 Q. Okay. If you would refer to the affidavit  
11 of due diligence and the return receipts, in these several  
12 applications, when was the date that the mailing was done?

13 A. The mailing was done on September the 17th,  
14 1999 by certified mail, return receipt requested.

15 Q. And that...would that have been true for  
16 each of the consolidated applications?

17 A. Yes, it is.

18 Q. Okay. And then if you would look at one  
19 of...for any of the certificates of publication that you  
20 received. What newspaper were each of these notices  
21 published in?

22 A. The Bluefield Daily Telegraph on September  
23 the 30th, 1999.

24

--

1 Q. And...and there is a proof of publication  
2 and proof of mailing in each of these packets of exhibits  
3 that you've passed out today?

4 A. Yes, it is.

5 Q. And when you did the mailing, was it by  
6 certified mail return receipt requested?

7 A. Yes, it was.

8 Q. And the return receipts are also included?

9 A. Yes, it is.

10 Q. Let's go through these...these units and  
11 look at standing issues. Exhibits...specifically Exhibit A,  
12 page two. Let's start with L-42. I'll just show you mine.  
13 If you'll look at Exhibit A, page two. Could you tell the  
14 Board what interest you have leased or own and what interest  
15 is outstanding that needs to be pooled?

16 A. Yes. We leased 100% of the coal owners  
17 coalbed methane interest, and 99.77825% of the oil and gas  
18 owners coalbed methane interest. We're seeking to pool  
19 0.22175% of the oil and gas interest.

20 Q. And that's with regard---?

21 A. Coalbed methane.

22 Q. And that's with regard to L-42?

23 A. Yes, it is.

24

--

1 Q. Okay. With regard to L-43, again, with  
2 reference to Exhibit A, page two. Could you describe to the  
3 Board what interest you've acquired and what is outstanding  
4 that needs to be pooled?

5 A. Yes, we've 100% of the coal owners coalbed  
6 methane interest and 99.0625% of the oil and gas coalbed  
7 methane interest and we're seeking to pool 0.9375% of the oil  
8 and gas interest.

9 Q. With regard to N-43, again, referring to  
10 Exhibit A, page two, tell the Board what the leased interests  
11 are and what the outstanding interest that needs to be pooled  
12 is.

13 A. Yes, 100% of the coal owners coalbed methane  
14 interest and we've leased 99.87135% of the oil and gas  
15 owners. We're seeking to pool 0.12865% of the oil and gas  
16 owners.

17 Q. With reference to N-44, Exhibit A, page two,  
18 what is the...what are the interests or the extent of the  
19 interest that you've obtained leases for?

20 A. In N-44, we've leased 100% of the coal  
21 owners coalbed methane and 99.96405% of the oil and gas  
22 owners; and we're seeking to pool 0.03595% of the oil and gas  
23 interest.

24

--

1 Q. And lastly, with regard to Unit R-50, again,  
2 referring to Exhibit A, page two, what have you leased and  
3 what are you seeking to pool?

4 A. 100% of the coal owners coalbed methane  
5 interest---

6 Q. Is leased?

7 A. ---is leased and 98.53125% of the oil and  
8 gas interest is leased and we're seeking to pool 1.46875% of  
9 the oil and gas owners interest.

10 Q. And is there one well proposed for each of  
11 these units?

12 A. Yes, it is.

13 Q. Is the well in each instance within the 300  
14 foot offset or within the drilling unit?

15 A. Yes, it is.

16 Q. With regard to these units, and we'll start  
17 with L-42, could you tell us what the drilled cost and/or  
18 estimated cost is?

19 BENNY WAMPLER: Let me stop you just one second, if  
20 we can. Did you get Q-50, or did you intend to leave that  
21 out with your A, page two?

22 MARK SWARTZ: I left it out by accident. Thank you.

23 Q. With regard to Q-50, A, page two, again,  
24  
25

1 what is it...what are the extent of the interest you've  
2 acquired by lease?

3 A. 100% of the coal owners coalbed methane  
4 interest and 97.2375% of the oil and gas owners coalbed  
5 methane interest is leased; and we're seeking to pool 2.7625%  
6 of the oil and gas interest.

7 MASON BRENT: Is the permit date on that one  
8 correct, a year ago?

9 LESLIE K. ARRINGTON: Q-50?

10 MASON BRENT: Uh-huh.

11 LESLIE K. ARRINGTON: It is. That is correct.

12 Q. Okay. With regard to the...either cost of  
13 the drilling or the proposed cost with regard to these units  
14 concerning L-42, what was the cost?

15 A. The costs for that...estimated costs for  
16 that well is \$218,717.

17 Q. And the depth of that well?

18 A. 1,475 feet.

19 Q. With regard...and that is a well that has  
20 been drilled? Do you know?

21 A. I'm not sure that it has been drilled.

22 Q. Okay. The permit was issued in August of  
23 this year?

24

--

1 A. Yes.

2 Q. And what's the permit number?

3 A. 4312.

4 Q. With regard to L-43, is there a permit?

5 A. There is a permit, but this well is

6 presently being modified.

7 Q. So, it has not been drilled as of yet?

8 A. No, it has not.

9 Q. The permit that was originally issued was

10 4284?

11 A. Yes.

12 Q. And what was the proposed depth?

13 A. 1777. The estimated cost of \$230,134.20.

14 Q. What's the situation with regard to N-43?

15 A. N-43 is constructed. We're...we're in this

16 area right now constructing and drilling. So, it's an

17 ongoing operation in this area.

18 Q. Okay. And the permit number for N-43 that

19 was issued is?

20 A. 4309.

21 Q. The proposed depth?

22 A. 2,371.

23 Q. And the estimated costs?

24

1           A.       \$258,073.20.

2           Q.       N-44, there's a permit that's been issued?

3           A.       Yes, it is.

4           Q.       And what's the number?

5           A.       4289, estimated depth is 2,332 feet,

6 estimated costs is \$253,144.70.

7           Q.       With regard to R-50, do you have a permit

8 for that?

9           A.       No, we do not.

10          Q.       The estimated or proposed depth of that well

11 though will be?

12          A.       2,466 and the estimated cost of \$253,859.

13          Q.       And then skipping down to the last item, Q-

14 50, do you have a permit for that well?

15          A.       Yes. 4002, estimated depth of 2...well,

16 this one is actually drilled, 2,076 feet...2,076.20 feet and

17 estimated costs of \$246,807.41.

18          Q.       And the Q-50 well has actually been drilled?

19          A.       It has.

20          Q.       Okay. The costs that you have reported as

21 estimated costs for these...for these wells, is it your

22 opinion that those represent the reasonable costs to drill,

23 fracture and complete these wells?

24

1           A.       Yes, it is.

2           Q.       Now, each of these units...we've talked  
3 about the fact that they have one well in the drilling  
4 window. These are each proposed to be Oakwood I units?

5           A.       Yes, they are.

6           Q.       And you're proposing to pool and produce  
7 from seams from the Tiller on down?

8           A.       Yes, we are.

9           Q.       And on Exhibit Three with regard..B-3..with  
10 regard to each of these units, you have reported the acreage  
11 in the unit for each respondent?

12          A.       We have.

13          Q.       And the percentage of interest in the unit?

14          A.       Yes, we have.

15          Q.       And those percentages of interest represent  
16 the percentage that will be used by an applicant...by a  
17 respondent who wanted to participate or be carried, correct?

18          A.       That's correct.

19          Q.       And also would represent the royalty  
20 interest for production coming out of these units?

21          A.       Yes, it would.

22          Q.       In each of these units, it looks like you've  
23 leased 99 plus...either a 100% or 90 plus percent of the two  
24



1 competing interests, correct?

2 A. That's correct.

3 Q. What have been the leased terms typically

4 that you've offered?

5 A. A dollar per acre per year for coalbed

6 methane lease, a one-eighth royalty with a five (5) year

7 term.

8 Q. And the rental would seize when production

9 commences?

10 A. Yes, it does.

11 Q. Are you recommending those terms to the

12 Board to utilized in any order that might be entered on the

13 deemed to have leased question?

14 A. Yes, we are.

15 Q. Is it your opinion that the development

16 plans disclosed by each of these applications and the plats

17 that are next to the applications are reasonable plans to

18 develop the coalbed methane in and under these units?

19 A. Yes, it is.

20 Q. And would, in fact, would be your opinion

21 that the plans as disclosed by these applications and the

22 plats attached thereto would actually contribute to the

23 protection of correlative rights by giving each owner or

24

1 claimant their fair share of the production out of each of  
2 these units?

3 A. Yes, it would.

4 Q. That's all I have.

5 BENNY WAMPLER: Any questions from members of the  
6 Board?

7 (No audible response.)

8 DENNIS GARBIS: Mr. Chairman, I'd like to make a  
9 motion that we approve those that have been requested.

10 BENNY WAMPLER: Motion to approve.

11 MAX LEWIS: I second.

12 BENNY WAMPLER: Seconded. Any further discussions?

13 (No audible response.)

14 BENNY WAMPLER: All in favor, signify by saying yes.

15 (All members signify yes.)

16 BENNY WAMPLER: Opposed, say no.

17 (No audible response.)

18 BENNY WAMPLER: You have approval. Thank you.

19 MARK SWARTZ: Thank you very much.

20 (Board members confer among themselves.)

21 (Elizabeth McClanahan hands out exhibits.)

22 BENNY WAMPLER: Okay. Sorry. I'm cleaning up a few  
23 things.  
24

1                   ELIZABETH McCLANAHAN: No, that's fine.

2                   BENNY WAMPLER: The next item on the agenda is a  
3 petition from Cabot Oil and Gas Corporation for an  
4 establishment of a provisional drilling unit and pooling of  
5 interest in a 112.69 acre tract conventional gas well CGOC  
6 #40, docket number VGOB-99-10/19-0759. We'd ask the parties  
7 that wish to address the Board to come forward this time.

8                   ELIZABETH McCLANAHAN: Mr. Chairman, I'm Elizabeth  
9 McClanahan with Penn, Stuart & Eskridge and we represent  
10 Cabot Oil and Gas Corporation. The gentlemen with me here at  
11 the table will be testifying in the case. Do you want to  
12 have them sworn in at this time?

13                   BENNY WAMPLER: Have them sworn in, please.

14                   (Everyone is duly sworn.)

15                   BENNY WAMPLER: The record will show there are no  
16 others. You may proceed.

17                   ELIZABETH McCLANAHAN: All right. This particular  
18 provisional unit for COGC 40 is actually a unit for pooling  
19 conventional gas underlying this particular unit in Tazewell.  
20 We've previously filed the due diligence affidavit and  
21 copies of the certified mail/return receipts and the hearing  
22 notice and the proof of publication for that.

23                   Cabot is actually the owner of 97.98% of the right  
24

1 to develop the oil and gas underlying this particular unit as  
2 you can see from Exhibit C. There's 2.2 acre tract which  
3 comprises State Route 612 and that runs through the proposed  
4 COGC 40 unit. If you'll look at Exhibit B to the  
5 application, you'll see that road. That's the only unleased  
6 acreage that's in this entire COGC 40 unit. Cabot has  
7 actually attempted to lease from the Commonwealth of  
8 Virginia, but received a letter from James Cline, who is the  
9 Assistant State Maintenance Engineer, indicating that the  
10 Commonwealth would prefer that we use the force pooling  
11 mechanism.

12 Cabot's testimony will demonstrate that  
13 Consolidation Coal Company is actually the coal owner/  
14 operator on 97.98% of the acreage where the unit is and  
15 Consol has executed a letter of consent to the COGC 40  
16 location. Cabot would like the authority to produce one  
17 conventional gas well within this unit on statewide spacing  
18 that's pursuant to 45.1-361.17. The permit application for  
19 the COGC 40 well was filed on October 12th, 1999 with the gas  
20 and oil inspector's office. We're requesting that this be a  
21 provisional unit in order that we can drill enough wells to  
22 determine what is appropriate spacing in the entire field and  
23 so we would ask that the unit be depicted as shown on Exhibit

24

--

1 B of the application, which is again consistent with the  
2 statewide spacing rules and that we pool the interest of the  
3 parties that are listed on Exhibit C of the application.

4 I would like to call as our first witness Jeffery  
5 L. Keim.

6

7 JEFFERY L. KEIM

8 having been duly sworn, was examined and testified as  
9 follows:

10 DIRECT EXAMINATION

11 QUESTIONS BY MS. McCLANAHAN:

12 Q. Jeff, would you please state your full name  
13 and address?

14 A. Yes. Jeffery L. Keim, 108 Round Table  
15 Drive, McMurray, Pennsylvania.

16 Q. Could you please identify the exhibit that's  
17 marked as Exhibit One in the booklet that we submitted to the  
18 Board?

19 A. Yes, that's a resume which I prepared for  
20 you.

21 Q. And does this resume reflect your  
22 educational background and work experience?

23 A. Yes, it does.

24

--

1 Q. Have you previously qualified as an expert  
2 before the Gas and Oil Board?

3 A. Yes, I have.

4 ELIZABETH McCLANAHAN: Mr. Chairman, I would move  
5 the introduction of Exhibit One and submit Mr. Keim as an  
6 expert witness.

7 BENNY WAMPLER: It's accepted without objection.

8 Q. Mr. Keim, has Cabot given notice as required  
9 by Section 45.1-361.19 to every person or entity that's  
10 identified on Exhibit C of the unit and pooling application?

11 A. Yes, we have.

12 Q. Would you please identify Exhibit Two?

13 A. It is the notice of hearing for the COGC 40.

14 Q. And what is...was this exhibit marked  
15 as...was this exhibit mailed along with a copy of the  
16 application and exhibits to the parties that are listed on  
17 Exhibit C of the application?

18 A. Yes...yes, it was.

19 ELIZABETH McCLANAHAN: Mr. Chairman, I would move  
20 the introduction of Exhibit Two.

21 BENNY WAMPLER: It's accepted.

22 Q. And by what method did you mail this  
23 particular exhibit?

24

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1                   A.       By U. S. Mail, certified/return receipt  
2 requested.

3                   Q.       Okay. And have those return receipts been  
4 previously submitted to the Board?

5                   A.       Yes, they have.

6                   Q.       And were there any persons whose name and/or  
7 addresses were unknown who had an interest in the COGC 40  
8 unit acreage?

9                   A.       No.

10                  Q.       Did you also publish a notice of hearing in  
11 the Bluefield Daily Telegraph paper?

12                  A.       Yes, we did.

13                  Q.       And do you remember the date that that was  
14 published?

15                  A.       I do not exactly. Give me a second and I  
16 can tell you.

17                  (Witness reviews his notes.)

18                  A.       I believe that was September the 23rd, 1999.

19                  Q.       Okay. And was a copy of this proof of  
20 publication previously submitted to the Board as well?

21                  A.       Yes.

22                  Q.       And is the information that was listed on  
23 Exhibit C, D and F still correct as submitted with the  
24

1 application?

2 A. We had to revise Exhibit C to reflect the  
3 non-participating oil and gas royalty ownership of the Phipps  
4 brothers, Basil and Dale. Initially, we indicated only gas  
5 ownership and it's actually...they actually own oil and gas,  
6 a non-participating (inaudible). So, we did revise Exhibit  
7 C.

8 Q. And is that the only revision that was made  
9 to Exhibit C, D and F?

10 A. Yes.

11 ELIZABETH McCLANAHAN: Mr. Chairman, I would move  
12 the introduction of Exhibit Three.

13 BENNY WAMPLER: It's accepted.

14 Q. Are Consolidation Coal Company and the  
15 Commonwealth of Virginia the coal owners underlying the  
16 proposed unit?

17 A. Yes, they're the only coal owners.

18 Q. And did Consolidation Coal Company consent  
19 to the location of the COGC 40 well?

20 A. Yes, they did, by letter.

21 Q. Has a well work permit been filed for the  
22 COGC 40 well?

23 A. Yes, it was filed on October 12th.

24

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1                   Q.       Okay. Does the plat that's attached to the  
2 unit and pooling application indicate the acreage and the  
3 shape of the acreage that you wish to be embraced with in the  
4 COGC 40 unit?

5                   A.       Yes, it does.

6                   Q.       Does the plat submitted with the application  
7 also indicate the area where the well is proposed to be  
8 drilled pursuant to the permit application that you filed on  
9 October 12th?

10                  A.       Yes, it...yes, it does. Uh-huh.

11                  Q.       And does the proposed drilling unit embrace  
12 two or more separately owned tracts, or are there separately  
13 owned interests in all or part of any such drilling unit, and  
14 those having interest have not agreed to pool their  
15 interests?

16                  A.       Yes.

17                  Q.       And what percentage of the oil and gas  
18 within the unit is owned by Cabot?

19                  A.       Roughly 98%, or I'd say exactly 97.98%.

20                  Q.       And what percentage of the oil and gas  
21 underlying the unit is not owned by Cabot?

22                  A.       2.02%.

23                  Q.       And who is the owner of that particular  
24

1   unleased acreage?

2                   A.       Commonwealth of Virginia.

3                   Q.       Did you...did Cabot contact the Commonwealth  
4   of Virginia?

5                   A.       Yes, we did.

6                   Q.       Did you offer the Commonwealth of Virginia a  
7   lease?

8                   A.       Yes.   We made...we actually offered a couple  
9   of different options.   In our letter dated September 13th, we  
10   offered the option to lease the oil and gas interest to us at  
11   dollar an acre bonus, dollar an acre delayed rental, one-  
12   eighths royalty and two dollars per acre shut-in royalties;  
13   or to enter into a voluntary agreement to share in the  
14   operation of the well including sharing the costs...a  
15   reasonable cost of drilling the well and the development,  
16   including a monthly operating overhead; or to participate in  
17   the drilling of the wells as a non-participating operator on  
18   a carried basis with back-ins after...various payouts  
19   scenarios consistent with the Commonwealth's options.

20                  Q.       Okay.   Were you able to obtain a lease from  
21   the Commonwealth of Virginia?

22                  A.       We were not.

23                  Q.       Are you requesting that the Board establish  
24

1 the proposed COGC 40 unit as a provisional unit and pool  
2 those parties listed on Exhibit C?

3 A. Yes.

4 ELIZABETH McCLANAHAN: Mr. Chairman, those are all  
5 of the questions I have for Mr. Keim.

6 BENNY WAMPLER: Any questions from Members of the  
7 Board of this witness?

8 (No audible response.)

9 BENNY WAMPLER: Call your next witness.

10 ELIZABETH McCLANAHAN: Okay. I would like to call  
11 Michael Pryor.

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1                                    MICHAEL S. PRYOR, SR.  
2    having been duly sworn, was examined and testified as  
3    follows:

4                                    DIRECT EXAMINATION

5    QUESTIONS BY MS. McCLANAHAN:

6                    Q.        Mr. Pryor, will you please state your full  
7    name and address?

8                    A.        Michael S. Pryor, Sr., Post Office Box 2134,  
9    Abingdon, Virginia.

10                  Q.        Mr. Pryor, would you please identify the  
11    exhibit that's marked as Exhibit Four in the booklet that  
12    we've submitted to the Board today?

13                  A.        That's my resume.

14                  Q.        And does this resume reflect your  
15    educational background and work experience?

16                  A.        Yes, it does.

17                  Q.        And have you previously qualified as an  
18    expert before this Gas and Oil Board?

19                  A.        Yes, I have.

20                  ELIZABETH McCLANAHAN:    Mr. Chairman, I would move  
21    the introduction of Exhibit Four and submit Mr. Pryor as an  
22    expert witness.

23                  BENNY WAMPLER: It's accepted.

24

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1           Q.       Mr. Pryor, in your experience of obtaining  
2 leases in Southwestern Virginia, are you familiar with the  
3 fair market value for oil and gas leases in the unit area  
4 that has been proposed for COGC 40?

5           A.       Yes, I am.

6           Q.       Approximately how many acres have you leased  
7 in Southwestern Virginia?

8           A.       Several thousand.

9           Q.       In your opinion, what are the fair market  
10 value terms for an oil and gas lease in this area?

11          A.       A dollar bonus, dollar delay rental, one-  
12 eighth royalty and two dollar per acre shut-in royalty.

13          Q.       And what is the usual primary term?

14          A.       One (1) to five (5) years.

15          ELIZABETH McCLANAHAN: Mr. Chairman, those are all  
16 of the questions I have for Mr. Pryor.

17          BENNY WAMPLER: Any questions from Members of the  
18 Board of this witness?

19               (No audible response.)

20          BENNY WAMPLER: Call your next witness.

21          ELIZABETH McCLANAHAN: All right. Mr. Chairman, I  
22 would like to call Andrew Iezzi.

23          ANDREW MICHAEL IEZZI: Iezzi.

24

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1                    ELIZABETH McCLANAHAN: Okay. Forgive me. I can't  
2 even pronounce my own witnesses' name.

3

4

5                    ANDREW MICHAEL IEZZI

6 having been duly sworn, was examined and testified as  
7 follows:

8                    DIRECT EXAMINATION

9 QUESTIONS BY MS. McCLANAHAN:

10                   Q.        Why don't you please pronounce and tell us  
11 your full name?

12                   A.        Andrew Michael Iezzi.

13                   Q.        Mr. Iezzi, could you please identify Exhibit  
14 Five, please?

15                   A.        That is my resume.

16                   Q.        And does this reflect your educational  
17 background and work experience?

18                   A.        Yes, it does.

19                   ELIZABETH McCLANAHAN: Mr. Chairman, I would move  
20 the introduction of Exhibit Five and also submit Mr. Iezzi as  
21 an expert witness.

22                   BENNY WAMPLER: It's accepted.

23                   Q.        Mr. Iezzi, is the COGC 40 unit a drilling  
24

--

1 unit for the production of conventional gas?

2 A. Yes.

3 Q. And what is the target formation from which  
4 you intend to produce?

5 A. The Berea formation.

6 Q. Could you please describe the formation for  
7 the Board?

8 A. The Berea formation is a lower Mississippian  
9 age sandstone, which directly overlies the Devonian age  
10 bedford shells, consists mostly of portside sand that was  
11 deposited in a shallow sea setting as a middle to upper shore  
12 face sandshelf. It...in this particular area of Tazewell  
13 County, it can be between 40 and 45 feet thick and developed  
14 primarily porosity in a Northeast/Southwest direction.

15 Q. What are the estimated amount of recoverable  
16 reserves within the proposed unit?

17 A. 540,000,000 cubic feet.

18 Q. And what is the estimated average production  
19 over the life of the COGC 40 well?

20 A. 30 MCF a day.

21 Q. What considerations have determined the  
22 characteristics of the proposed COGC 40 unit operations's  
23 plan?

24

--

1           A.       The characteristics of the proposed  
2 provisional drilling unit are dictated by the statutes which  
3 state where no field rules are in place, a unit should be  
4 established as a circle with a radius of 1,250 feet around  
5 the well for the exploration and development of gas.

6           Q.       Could you identify Exhibit Six that we've  
7 submitted to the Board?

8           A.       Exhibit Six is the current geologic  
9 interpretation that Cabot has of the Berea porosity trend in  
10 the area that comes in Tazewell County.

11          Q.       Did you supervise the preparation of this  
12 exhibit?

13          A.       Yes, I did.

14          ELIZABETH McCLANAHAN: Mr. Chairman, I would move  
15 the introduction of Exhibit Six.

16          BENNY WAMPLER: It's accepted.

17          Q.       Could you please describe for the Board  
18 Cabot's proposed plan of development in the Tazewell County  
19 area?

20          A.       Since 1996, Cabot has drilled a number of  
21 wells in this porosity trend that you see depicted on the  
22 map, mostly in and around the...the known production from the  
23 Berea formation as well as in close proximity to the existing  
24



1 pipelines.

2 Q. Are the wells that you've previously drilled  
3 shown on this exhibit with COGC and then a number after them?

4 A. Yes.

5 Q. Okay. Does Cabot possess the geological and  
6 well data to determine the exact drainage patterns and  
7 appropriate unit sizes for this particular area?

8 A. No, we do not.

9 Q. And is that why Cabot is proposing a  
10 provisional unit for this well?

11 A. Yes, it is. Yes, it is.

12 Q. Do you plan to drill and propose additional  
13 wells and provisional units for this particular area?

14 A. Yes, we do.

15 Q. Are the costs and expenses for the COGC 40  
16 well set forth on the authority for expenditure or AFE  
17 attached to the unit and pooling application as Exhibit G?

18 A. Yes, they are.

19 Q. And does this exhibit reflect the costs of  
20 drilling the well to total depth and completed for production  
21 costs?

22 A. Yes, it is.

23 Q. And are you requesting that Cabot be  
24

1 designated as the well operator authorized to operate this  
2 particular unit?

3 A. Yes.

4 ELIZABETH McCLANAHAN: Mr. Chairman, those are all  
5 of the questions that I have for Mr. Iezzi.

6 BENNY WAMPLER: Thank you very much. When do you  
7 anticipate that you have enough saturation of wells in the  
8 area to move from a provisional unit to estimate your  
9 spacing?

10 A. I...I would probably say in the neighborhood  
11 of about a dozen more wells where we can fully develop the  
12 actual porosity trend. As you can see, we've pretty much  
13 developed in two small pods here and the extension of which  
14 of these pods in either direction still needs to be  
15 delineated so that we can fully understand the drainage  
16 patterns of each well.

17 BENNY WAMPLER: Would you anticipate that that would  
18 cover the entire area that you have outlined here?

19 A. It would probably cover the area in  
20 between---.

21 BENNY WAMPLER: In between.

22 A. ---the two pods.

23 BENNY WAMPLER: Okay. Other questions from members  
24  
25

1 of the Board?

2 MAX LEWIS: Have you all drilled any wells to the

3 Devonian shell?

4 A. To the Devonian shell?

5 MAX LEWIS: Yeah.

6 A. We've drilled, I believe, one well to that

7 depth.

8 BENNY WAMPLER: Other questions?

9 (No audible response.)

10 BENNY WAMPLER: Do you have anything further?

11 ELIZABETH McCLANAHAN: No, sir.

12 CLYDE KING: I move we accept, Mr. Chairman.

13 DENNIS GARBIS: I second.

14 BENNY WAMPLER: Motion and second. Any further

15 discussion?

16 (No audible response.)

17 BENNY WAMPLER: All in favor, signify by saying yes.

18 (All members signify yes.)

19 BENNY WAMPLER: Opposed, say no.

20 (No audible response.)

21 BENNY WAMPLER: It is unanimous approval. Thanks.

22 ELIZABETH McCLANAHAN: Thanks very much.

23 MICHAEL S. PRYOR, SR.: Thank you.

24

1           ANDREW MICHAEL IEZZI: Thank you.

2           JEFFERY L. KEIM: Thank you.

3           BENNY WAMPLER: Take a five (5) minute break?

4           (Members indicate yes.)

5           BENNY WAMPLER: We'll take five (5) minute break and

6 then we'll bring Equitable Production to the table.

7           (Off record.)

8           BENNY WAMPLER: Mr. Kiser, did you indicate you have

9 the last three (3) items on the agenda?

10          JIM KISER: Sir?

11          BENNY WAMPLER: Do you have the last three (3) items

12 on the agenda?

13          JIM KISER: Yes, and I need to make an announcement

14 about a couple of them, I guess.

15          BENNY WAMPLER: All right. Do you want to go ahead

16 and do that before we call them?

17          JIM KISER: Yes, we would like to...we have both a

18 location exception or variance and a force pooling on the

19 same conventional well, V-4337. The docket numbers

20 apparently were sought, really, in the opposite order of what

21 we need to do. We'd like to switch those two around and have

22 the Board hear the request for a variance first and then do

23 the force pooling; and then the last item on the agenda is a

24

1 location exception for Columbia Natural Resources, we'd  
2 request that that be continued until next month's docket in  
3 that they have not had time to submit their permit to the DGO  
4 as of yet.

5 BENNY WAMPLER: Okay. So, docket number VGOB-99-  
6 10/19-0763 is requested to be continued? That's CNR-21615  
7 well?

8 JIM KISER: Correct.

9 BENNY WAMPLER: Proposed well. Any objection?

10 (No audible response.)

11 BENNY WAMPLER: Hearing none, it's continued until  
12 next month. All right. So, we're going to...we're going to  
13 call---?

14 JIM KISER: I'd like to call item number thirteen  
15 (13) and then item number twelve (12).

16 BENNY WAMPLER: Thirteen (13) first. Okay. The  
17 Board will consider a petition from Equitable Production  
18 Company for a well location exception for proposed well V-  
19 4337. This is docket number VGOB-99-10/19-0762. We'd ask  
20 the parties that wish to address the Board in this matter to  
21 come forward at this time.

22 JIM KISER: Mr. Chairman and Members of the Board,  
23 Jim Kiser on behalf of Equitable Production Company. Our  
24

1 witnesses in this matter will be Mr. Don Hall and Mr. Mark  
2 Puskar. We'd ask that they be sworn at this time.

3 (Witnesses are duly sworn.)

4 JIM KISER: We'll begin our testimony with Mr. Hall  
5 and I believe you all have an exhibit that he has submitted  
6 that he'll use during his testimony.

7

8 DON C. HALL

9 having been duly sworn, was examined and testified as  
10 follows:

11 DIRECT EXAMINATION

12 QUESTIONS BY MR. KISER:

13 Q. Mr. Hall, if you would, state your name for  
14 the Board, who you are employed by and in what capacity?

15 A. My name is Don C. Hall. I'm employed by  
16 Equitable Production Company as District Landman.

17 Q. And your qualifications as a expert witness  
18 in land matters have been previously accepted...has been  
19 previously accepted by the Board on many occasions?

20 A. Yes.

21 Q. And do your responsibilities with Equitable  
22 include the land involved here and in the surrounding area?

23 A. Yes, they do.

24

--

1                   Q.       Are you familiar with the application that  
2 was filed seeking a location exception for well V-4337 and  
3 the relief requested?

4                   A.       Yes, I am.

5                   Q.       And was a permit applied for this well on  
6 October 5th, 1999?

7                   A.       Yes, it was.

8                   Q.       And have all interested parties been  
9 notified as required by Section 4B of the Virginia Gas and  
10 Oil Board Regulations?

11                  A.       They have.

12                  Q.       Does Equitable...now, we're seeking a  
13 location exception from three (3) reciprocal wells. Does  
14 Equitable have the right to operate all of those wells?

15                  A.       Yes. All three (3) of those wells are  
16 Equitable wells.

17                  Q.       Now, in conjunction with your exhibit, could  
18 you please explain for the Board both the coal considerations  
19 and correlative rights issues that are paramount to the need  
20 for a location exception?

21                  A.       As you can see from the exhibit, the subject  
22 well 4337 is highlighted in red, the three (3) reciprocal  
23 wells are highlighted in yellow, those being the wells that  
24

1 we're...would be too closely...and the blue circle that you  
2 see is the legal location area that...to have a legal  
3 location from these wells, that would be where we would have  
4 to place the location. Penn Virginia, and their lessee  
5 Greater Wise, are mining in that area. So, we are unable at  
6 this time to get a location approved by the coal companies  
7 over in that particular area where the legal location would  
8 be. In addition, as you can see from the location of the  
9 subject well 4337, if we put it there, there's an area that  
10 we will include in the unit that, should it be put at the  
11 legal location, would be omitted from any unit, and this  
12 would establish...would maximize the recovery from that  
13 particular area. The area that's highlighted in green would  
14 be if we had a legal location that would be precluded from  
15 any unit.

16 Q. So, to sum up our reasons in seeking this  
17 variance are both coal considerations and protection of  
18 correlative rights and that we do not want to leave a---?

19 A. Yes.

20 Q. ---uncompensated, undrained area?

21 A. Yes, we want to maximize the area that we're  
22 draining there.

23 JIM KISER: Nothing further of this witness at this  
24



1 time, Mr. Chairman.

2 BENNY WAMPLER: Any questions from members of the  
3 Board of this witness?

4 (No audible response.)

5 BENNY WAMPLER: Call your next witness.

6

7 MARTIN P. PUSKAR

8 having been duly sworn, was examined and testified as  
9 follows:

10 QUESTIONS BY MR. KISER:

11 Q. Mr. Puskar, could you please state your name  
12 for the Board, who you are employed by and in what capacity?

13 A. My name is Martin P. Puskar. I'm employed  
14 by Equitable Production Company, Eastern Region and I am a  
15 Senior Petroleum Engineer.

16 Q. Now, you have, on several occasions in the  
17 last four (4) or five (5) years, testified before the  
18 Virginia Gas and Oil Board as a expert in operational  
19 matters?

20 A. Yes, I have.

21 Q. But since it has been so long, could you  
22 please summarize both your educational and work experience  
23 for the Board?

24

--

1                   A.       I've got a Bachelor of Science Degree in  
2   Petroleum and Natural Gas Engineering from the Pennsylvania  
3   State University. I've been employed in the industry for  
4   over nineteen (19) years with seventeen (17) years being with  
5   Equitable and the last twelve (12) years being primarily here  
6   in Virginia. My duties basically evolve around the drilling  
7   and production and completion operations of both conventional  
8   wells and coalbed methane wells.

9                   JIM KISER: At this time, Mr. Chairman, we'd move  
10   that Mr. Puskar and his qualifications be accepted as an  
11   expert witness in the area of operations and production?

12                  BENNY WAMPLER: He's accepted.

13                  Q.       Now, are you familiar with the application  
14   that we file for the location exception for well number V-  
15   4337?

16                  A.       Yes, I am.

17                  Q.       In the event a location exception is not  
18   granted, would you project the estimated reserves...loss of  
19   reserves resulting in waste?

20                  A.       We estimate approximately 650,000,000 cubic  
21   feet of gas.

22                  Q.       And what is the total depth of the proposed  
23   well under the plan of development?

24

--

1                   A.       4,950 feet.

2                   Q.       Will this be sufficient to penetrate and

3 test the common sources as supplied in the subject formations

4 as named in the well permit package?

5                   A.       Yes.

6                   Q.       And is Equitable Production Company

7 requesting that this location exception cover conventional

8 gas reserves to include the designated formations from

9 surface to total depth drilled?

10                  A.       Yes, we do.

11                  Q.       And Mr. Puskar, in your professional

12 opinion, will the granting of this location exception be in

13 the best interest of preventing waste, protecting correlative

14 rights, and maximizing the recovery of the gas reserves

15 underlying V-4337?

16                  A.       Yes, it will.

17                  JIM KISER: Nothing further of this witness at this

18 time, Mr. Chairman.

19                  BENNY WAMPLER: Any questions from members of the

20 Board?

21                  (No audible response.)

22                  BENNY WAMPLER: Do you have anything further?

23                  JIM KISER: We'd ask that the application be

24

1 approved as submitted.

2 CLYDE KING: I move that we approve, Mr. Chairman.

3 DENNIS GARBIS: I second.

4 BENNY WAMPLER: Motion and second. Any further  
5 discussion?

6 (No audible response.)

7 BENNY WAMPLER: All in favor, signify by saying yes.  
8 (All members signify yes.)

9 BENNY WAMPLER: Opposed, say no.  
10 (No audible response.)

11 BENNY WAMPLER: You have approval. Thank you. The  
12 next item on the agenda is a petition from Equitable  
13 Production Company for pooling of a conventional gas unit  
14 identified as V-4337, docket number VGOB-99-10/19-0761. We'd  
15 ask the parties that wish to address the Board in this matter  
16 to come forward at this time.

17 JIM KISER: Mr. Chairman and Members of the Board,  
18 Jim Kiser on behalf of Equitable Production Company. Our  
19 witness in this matter...witnesses in this matter will be Mr.  
20 Dennis Baker and Martin Puskar. We'd ask that Mr. Baker be  
21 sworn at this time.

22 (Witness is duly sworn.)

23 BENNY WAMPLER: The record will show there are no  
24

1 others. You may proceed.

2

3

4

DENNIS R. BAKER

5 having been duly sworn, was examined and testified as

6 follows:

7

DIRECT EXAMINATION

8 QUESTIONS BY MR. KISER:

9 Q. Mr. Baker, would you state your name for the  
10 Board, who you're employed by and in what capacity?

11 A. My name is Dennis R. Baker. I'm employed by  
12 Equitable Production Company as Senior Landman.

13 Q. And do your responsibilities include the  
14 land involved here and in the surrounding area?

15 A. Yes, they do.

16 Q. And are you familiar with Equitable's  
17 application for the establishment of a drilling unit and  
18 seeking a pooling order for Equitable Production well number  
19 V-4337, dated September 15th, 1999?

20 A. Yes, I am.

21 Q. Does Equitable own drilling rights in the  
22 unit involved?

23 A. Yes.

24

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1                   Q.       Does the proposed unit as depicted in the  
2 Exhibit A to the application the plat include all acreage  
3 within the 1,250 foot radius of the proposed well?

4                   A.       Yes, it does.

5                   Q.       Now, prior to filing your application, were  
6 efforts made to contact each of the respondent in an attempt  
7 made to work out an agreement regarding the development of  
8 the unit?

9                   A.       Yes.

10                  Q.       And what is the interest of Equitable under  
11 lease within the unit at this time?

12                  A.       The interest leased to Equitable at this  
13 time is 93.80%.

14                  Q.       And are you familiar with the ownership of  
15 drilling rights of parties other than Equitable underlying  
16 this unit?

17                  A.       Yes, I am.

18                  Q.       And what is the percentage that remains  
19 unleased at this time?

20                  A.       The unleased percentage of the unit is  
21 6.20%.

22                  Q.       Now, subsequent to the filing of the  
23 application, have you continued to attempt to reach an  
24

1 agreement with the unleased respondents listed in Exhibit B  
2 to the application?

3 A. Yes.

4 Q. And as a result of these efforts, have you  
5 been successful in obtaining any additional leases?

6 A. No, we have not.

7 Q. Okay. And are unleased parties set out in  
8 Exhibit B?

9 A. Yes.

10 BENNY WAMPLER: In Exhibit B, did you just round the  
11 two zeros?

12 A. Yes. Yes, we sure did.

13 BENNY WAMPLER: Okay. All right.

14 Q. Were reasonable and diligent efforts made  
15 and sources checked to identify and locate any unknown heirs  
16 to include primary sources such as deed records, probate  
17 records, assessors' records, treasury's records and secondary  
18 sources such as telephone directories, city directories,  
19 family and friends?

20 A. Yes.

21 Q. In your professional opinion, Mr. Barker,  
22 was due diligence exercised to locate each of the respondents  
23 names in Exhibit B?

24

--

1                   A.       Yes.

2                   Q.       And are the addresses set out in Exhibit B  
3 to the application the last known addresses for the  
4 respondents?

5                   A.       Yes.

6                   Q.       And are you requesting this Board to force  
7 pool all unleased interest as listed in Exhibit B?

8                   A.       Yes, we are.

9                   Q.       And are you familiar with the fair market  
10 of drilling rights in the unit here and in the surrounding  
11 area?

12                  A.       Yes, I am.

13                  Q.       Could you advise the Board as to what those  
14 are?

15                  A.       A \$5 per acre consideration, for a five (5)  
16 year term, and one-eighth of eight-eighth royalty.

17                  Q.       Did you gain this familiarity by acquiring  
18 oil and gas leases and other agreements involving the  
19 transfer of drilling rights in the unit involved here and in  
20 the surrounding area?

21                  A.       Yes.

22                  Q.       And in your professional opinion, do the  
23 terms you have testified to represent the fair market value  
24



1 of, and the fair and reasonable compensation to be paid for,  
2 drilling rights within this unit?

3 A. Yes.

4 Q. Now, as to the respondents listed in Exhibit  
5 B who you were not able to obtain a voluntary lease from, who  
6 remain unleased, do you...is it your testimony that they be  
7 allowed the following options with respect to their ownership  
8 interest within the unit: One, participation; two, a cash  
9 bonus of \$5 per net mineral acre plus a one-eighth of eight-  
10 eighths royalty; or three, in lieu of such cash bonus, a one-  
11 eighth of eight-eighths royalty share in the operation of the  
12 well on a carried basis as a carried operator on the  
13 following conditions: Such carried operator shall be entitled  
14 to the share of production from the tracts pooled accruing to  
15 his interest exclusive of any royalty or overriding royalty  
16 reserved in any leases, assignments thereof or agreements  
17 relating thereto of such tracts, but only after the proceeds  
18 applicable to his share equal - (A) three percent of the  
19 share of such costs applicable to the interest of a carried  
20 operator of a leased tract or portion thereof; or (B) two  
21 percent of the share of such costs applicable to the interest  
22 of the carried operator of an unleased tract or portion  
23 thereof?

24

--

1           A.       Yes, these are the correct options.

2           Q.       Do you recommend that any order provide that

3 elections by respondent be in writing and sent to the

4 applicant at Equitable Production Company---?

5           A.       Yes.

6           Q.       ---P. O. Box 1983, Kingsport, Tennessee?

7           A.       Yes.

8           Q.       And should this be the address for all

9 communications with the applicant concerning any force

10 pooling order?

11          A.       Yes.

12          Q.       Do you recommend that the order provide that

13 if no written elections is properly made by a respondent,

14 then such respondent shall be deemed to have elected the cash

15 royalty option in lieu of participation?

16          A.       Yes.

17          Q.       Should any unleased respondent be given

18 thirty (30) days from the date of the execution of the order

19 to file written elections?

20          A.       Yes.

21          Q.       If an unleased party elects to participate,

22 should they be given forty-five (45) days to pay for their

23 proportionate share of well costs?

24

1                   A.       Yes.

2                   Q.       Does the applicant expect that party  
3 electing to participate to pay in advance that share of  
4 completed well costs?

5                   A.       Yes.

6                   Q.       Should the applicant be allowed a hundred  
7 and twenty (120) days following the recordation date of the  
8 Board order, and thereafter annually on that date, until  
9 production is achieved to pay or tender any cash bonus  
10 becoming due under the order?

11                  A.       Yes.

12                  Q.       Do you recommend the order provide that if a  
13 respondent elects to participate, but fails to pay the their  
14 proportionate share of well costs satisfactory to the  
15 applicant for payment of said costs, then their election to  
16 participant should be treated as having been withdrawn and  
17 void?

18                  A.       Yes.

19                  Q.       Do you recommend that the order provide that  
20 where a respondent elects to participate, but defaults in  
21 regard to the payment of any well costs, any cash sum  
22 becoming payable be paid within sixty (60) days after the  
23 last date on which respondent could have been paid or made

24

--

1 satisfactory arrangements for the payment of the those  
2 participating well costs?

3 A. Yes.

4 Q. Okay. In this particular unit, we do have  
5 some unknown parties. So, do you request that the Board  
6 create an escrow account for the respondent's benefit until  
7 the money can be paid to the party or that party can be  
8 located?

9 A. Yes.

10 Q. And who should be named the operator under  
11 any force pooling order?

12 A. Equitable Production Company.

13 JIM KISER: Thank you, Mr. Baker. Nothing further  
14 of this witness at this time, Mr. Chairman.

15 BENNY WAMPLER: Any questions of this witness from  
16 Members of the Board?

17 (No audible response.)

18 BENNY WAMPLER: Call your next witness.

19

20 MARTIN P. PUSKAR

21 having been duly sworn, was examined and testified as  
22 follows:

23 DIRECT EXAMINATION

24

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1 QUESTIONS BY MR. KISER:

2 Q. Mr. Puskar, if you could again state your  
3 name for Board, who you are employed by and in what capacity.

4 A. Martin P. Puskar, Senior Petroleum Engineer  
5 with Equitable Production Company.

6 Q. And your responsibilities do include the  
7 land involved here and in the surrounding area?

8 A. Yes.

9 Q. And you've testified previously that the  
10 total depth of the well under the plan of development is  
11 4,950 feet?

12 A. Yes.

13 Q. Okay. Is the applicant requesting that the  
14 force pooling of conventional gas reserves to include the  
15 design...not only the designated formations, but any other  
16 formations excluding coal formations which may be between  
17 those formations designated from the surface to the total  
18 depth drilled?

19 A. Yes.

20 Q. And you've testified previously during the  
21 hearing on the location exception that the estimated reserves  
22 for the life of the unit are 650,000,000 cubic feet, is that  
23 correct?

24

--

1           A.       Correct.   Yes.

2           Q.       Now, are you familiar with the costs for the  
3 proposed well under the plan of development?

4           A.       Yes.

5           Q.       And has an AFE been reviewed, signed and  
6 submitted to the Board as Exhibit C to the application?

7           A.       Yes, it has.

8           Q.       Was this AFE prepared by an engineering  
9 department knowledgeable in the preparation of AFEs and  
10 knowledgeable in regard to well costs in this area?

11          A.       Yes.

12          Q.       In your professional opinion, does this AFE  
13 represent a reasonable estimate of the well costs for the  
14 proposed well under the plan of development?

15          A.       Yes, it does.

16          Q.       Could you state for the Board at this time  
17 both the dry hole costs and completed well costs are?

18          A.       The dry hole costs are \$142,265.   The  
19 completed well costs are \$263,015.

20          Q.       And do these costs anticipate a multiple  
21 completion?

22          A.       Yes, they do.

23          Q.       Does AFE include a reasonable charge for  
24

1 supervision?

2 A. Yes, it does.

3 Q. Mr. Puskar, in your professional opinion,  
4 will the granting of this application be in the best interest  
5 of conservation, the prevention of waste and the protection  
6 of correlative rights?

7 A. Yes, it does.

8 JIM KISER: Nothing further of this witness at this  
9 time, Mr. Chairman.

10 BENNY WAMPLER: Would you address the...with  
11 whichever witness, the overlap areas how you plan to pay in  
12 those?

13 JIM KISER: Mr. Baker, do you want to answer that?

14 DENNIS R. BAKER: They'll be paid on each individual  
15 unit based on their share of contribution to the unit.

16 BENNY WAMPLER: So, in that area where they're  
17 overlapped, are you paying them twice?

18 DENNIS R. BAKER: Yeah, for each unit. Yes.

19 JIM KISER: Yes.

20 BENNY WAMPLER: Any questions from members of the  
21 Board?

22 (No audible response.)

23 BENNY WAMPLER: Do you have anything further?  
24

--

1           JIM KISER: Mr. Chairman, we'd ask that the  
2 application be approved as submitted  
3           MAX LEWIS: I make a motion that we approve the  
4 application as presented.  
5           MASON BRENT: Second.  
6           BENNY WAMPLER: Motion and second. Any further  
7 discussions?  
8           (No audible response.)  
9           BENNY WAMPLER: All in favor, signify by saying yes.  
10          (All members signify yes)  
11          BENNY WAMPLER: Opposed, say no.  
12          (No audible response.)  
13          BENNY WAMPLER: You have approval. Thank you.  
14          JIM KISER: Thank you.  
15          BENNY WAMPLER: Before the Board lifts off here. A  
16 couple of things. One, I want to go back and reopen the  
17 first item on the agenda. We've got the issue of the Board  
18 orders that apparently are ordering payments into First  
19 Virginia. And, I guess, what we...what we probably need is  
20 Board approval to make that conversion in whatever fashion we  
21 need to. In other words, we'll have to have discussions with  
22 both and have a easy transition here hopefully over a period  
23 of time and have your authorization...I'm requesting your  
24



1 authorization for us to make that an orderly transfer as we  
2 need to of the existing as well as the new ones coming on  
3 depending on...we may even have to extend the current  
4 contract. You know, it just depends on what our discussions  
5 lead us to. We want to be reasonable with both parties in  
6 the transition.

7 CLYDE KING: I so move.

8 MAX LEWIS: I second that.

9 BENNY WAMPLER: It has been seconded. Any further  
10 discussions?

11 (No audible response.)

12 BENNY WAMPLER: All in favor, say yes.

13 (All members signify yes.)

14 BENNY WAMPLER: Opposed, say no.

15 (No audible response.)

16 BENNY WAMPLER: Thank you. And finally our  
17 next...the December Board hearing is on a Wed...on Tuesday.  
18 Okay. And that December Board hearing is the 21st of  
19 December, the week of Christmas. Is that going to be a  
20 problem for anyone? I'm just seeing now because that's the  
21 only opportunity...do you want to move it up a week is what I  
22 was asking, for the week...for the week of the 14th?

23 MAX LEWIS: I'd say it would be better.

24

--

1           MASON BRENT: That would be great if we could move  
2 it up.  
3           MAX LEWIS: I believe it would.  
4           BENNY WAMPLER: I mean, we can do it if we do it  
5 now. If we wait until next month, we can't.  
6           MAX LEWIS: I'd like to put that in a form of a  
7 motion that we move it up to the 14th.  
8           BENNY WAMPLER: To 14...to Tuesday the 14th?  
9           MAX LEWIS: Uh-huh.  
10          CLYDE KING: Of December?  
11          BENNY WAMPLER: Of December?  
12          MAX LEWIS: Yeah, I believe it would be a lot  
13 better.  
14          BENNY WAMPLER: I have a motion to do that.  
15          CLYDE KING: Second.  
16          BENNY WAMPLER: Motion and second. Any further  
17 discussion?  
18          (No audible response.)  
19          BENNY WAMPLER: All in favor, signify by saying yes.  
20          (All members signify yes.)  
21          BENNY WAMPLER: Thank you. It will be the 14th of  
22 December.  
23          CLYDE KING: Now, will November be on a Wednesday?  
24

1 BENNY WAMPLER: November will be Wednesday, yes.

2 The 17th. Anything further?

3 (No audible response.)

4 BENNY WAMPLER: Nothing further.

5 MAX LEWIS: Let's get out of here.

6 BENNY WAMPLER: We're closed. Thank you.

7

8

9 STATE OF VIRGINIA,

10 COUNTY OF BUCHANAN, to-wit:

11 I, Sonya Michelle Brown, Court Reporter and Notary  
12 Public for the State of Virginia, do hereby certify that the  
13 foregoing proceeding was recorded by me on a tape recording  
14 machine and later reduced to typewritten form under my  
15 supervision; that I was duly sworn by the Court to accurately  
16 and correctly take down and transcribe the said proceedings;  
17 that the foregoing is a true and correct transcript of the  
18 said proceedings; that I am neither Counsel for nor related  
19 to any of the parties hereto and have no interest in the  
20 matter whatsoever.

21           Given under my hand and sealed on this the 28th day  
22 of October, 1999.

23 NOTARY PUBLIC

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1 My commission expires: August 31, 2001.

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